



AUDITOR-GENERAL
SOUTH AFRICA

Deputy Director-General
Limpopo Province
Local Government and Housing
Private Bag X9485
Polokwane
0700

30 November 2010

For attention: Chief Financial Officer

**FINAL REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS AND
PERFORMANCE INFORMATION OF ELIAS MOTSOLEDI LOCAL MUNICIPALITY FOR THE YEAR
ENDED 30 JUNE 2010**

1. The above-mentioned final report of the Auditor-General is herewith submitted in terms of section 21(4) of the Public Audit Act, 2004 (Act No. 25 of 2004), read in conjunction with section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996).
2. Until tabled, or published by the Auditor-General, this final report is **not public documents** and should therefore be treated as **confidential**.

Yours faithfully

For AUDITOR-GENERAL

Reference: 02734REG09/10
Enquiries: Annelie Schutte

**REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL
LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS OF
ELIAS MOTSOLEDI LOCAL MUNICIPALITY**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages XXX to XXX

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Municipal Finance Management Act of South Africa (Act no. 56 of 2003) (MFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004), my responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General Notice 1570 of 2009*, issued in *Government Gazette No. 32758 of 27 November 2009*. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer

Accumulated surplus

4. Comparative figures as disclosed in the financial statements include unexplained differences between the prior year audited financial statements and the financial records of the municipality of R29 484 417. These differences could not be reconciled to the restatement of corresponding figures as disclosed in note 33 to the financial statements. No alternative audit procedures were possible and consequently I could not determine whether

accumulated surplus amounting to R943 827 106 disclosed in the annual financial statements as comparative figures are correctly disclosed.

Journals

5. The municipality could not provide sufficient appropriate audit evidence to support journal entries amounting to R366 126 126 that were processed in the accounting records during the year. Sufficient appropriate audit evidence to support conversion journals amounting to R359 751 181 could also not be provided.
6. There was no system of control over journals on which I could rely on for the purpose of my audit. There were also no satisfactory audit procedures that I could perform to obtain reasonable assurance that all journals have been properly recorded. Consequently, I was unable to satisfy myself as to the validity, completeness and accuracy of the accounting records relating to journals and the effect on the account balances and classes of transactions contained in the financial statements.

Lease

7. Comparative figures as disclosed in the financial statements include unexplained differences between the prior year audited financial statements and the financial records of the municipality of R2 038 407. These differences could not be reconciled to the restatement of corresponding figures as disclosed in note 33 to the financial statements. No alternative audit procedures were possible and consequently I could not determine whether trade creditors amounting to R2 038 407 disclosed in the annual financial statements as comparative figures, are correctly disclosed.
8. The municipality could not provide sufficient appropriate audit evidence to support the balance of other financial liabilities amounting to R2 038 407 as disclosed in the statement of financial position. Consequently, I was unable to satisfy myself as to the completeness, existence and valuation and allocation of the account balance.

Provision for bad debts

9. The provision for bad debts amounting to R7 132 267 (2009: R3 162 839) disclosed in note eight to the financial statements could not be recalculated for reasonableness. The municipality did not consider objective evidence of impairment in estimating appropriate impairment losses in respect of trade and other receivables. I was therefore unable to satisfy myself as to the completeness and valuation and allocation of the provision for bad debts in the financial statements.

Revenue

10. My audit revealed properties that were not recorded on the valuation roll of the municipality as well as properties with incorrect values. The valuation roll from which property rates are being levied on is inaccurate and incomplete. Consequently, I could not satisfy myself as to

the completeness and accuracy of rates revenue to the amount of R10 735 965 (2009: R6 066 574)

Grants and subsidies

11. The municipality could not provide sufficient appropriate audit evidence to support the amount of R32 970 446 in note 17 to the financial statements. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence and accuracy of this amount in the financial statements.
12. A unexplained difference of R123 996 in respect of grants and subsidies as disclosed in note 17 to the financial statements as operating and capital grants received amounting to R22 080 414 does not agree to the detail disclosed within the same note that represents the current year's transfers to revenue, amounting to R22 204 410.
13. The unspent conditional grants and receipts balance of R693 298 (2009: R7 091 415), as disclosed in note 11 to the financial statements, does not agree to the balance of R891 211 (R7 091 415) per the general ledger. The entity did not reconcile the difference of R1 584 509 (2009: RNil) between the financial statements and the underlying accounting records. Consequently, the unspent conditional grants and receipts balance is overstated by R1 584 509. I could not determine the effect on the other account balances or classes of transactions contained in the financial statements.

Investment property

14. Investment property register could not be provided for audit purposes, we were therefore unable to verify the completeness, valuation and allocation and existence of investment property amounting to R1 836 000 in the financial statements.
15. Investment property amounting to R16 091 400 was incorrectly classified as property, plant and equipment resulting in the overstatement of property, plant and equipment and the understatement of investment property by the same amount.

Property, plant and equipment (PPE)

16. My audit report for the prior year was modified due to a lack of sufficient evidence that all property, plant and equipment owned by the municipality have been correctly valued and included in the balance of R485 568 874 as disclosed in note six to the financial statements. This has not been adequately resolved in the current year, and I am unable to determine the impact, if any, on the prior year's accumulated surplus.
17. Comparative figures as disclosed in the financial statements include unexplained differences between the prior year audited financial statements and the financial records of the municipality of R22 741 611. These differences could not be reconciled to the restatement of corresponding figures as disclosed in note 33 to the financial statements. No alternative audit procedures were possible and consequently I could not determine whether property,

- plant and equipment amounting to R485 568 874 disclosed in the annual financial statements as comparative figures are completed and correctly valued and allocated.
18. Property, plant and equipment acquired during the year as disclosed in note four to the financial statements include acquisitions of R15 994 562 for which no supporting documentation were made available. Furthermore, completed infrastructure assets amounting to R16 710 308 was not included in the accounting records and financial statements.
 19. Land identified from the valuation roll amounting to R4 248 300 was not recorded in the accounting records and financial statements.
 20. Property inventory amounting to R16 091 400 was reclassified as property, plant and equipment. This balance could not be traced to the accounting records and financial statements.
 21. The accounting records did not have leased assets amounting to R3 902 763 separately identifiable or disaggregated into separate asset items. I was therefore unable to confirm the existence and completeness of leased assets amounting to R3 902 763.
 22. Property, plant and equipment disclosed in note four to the financial statements includes land and buildings amounting to R166 767 178 for which the municipality could not provide the relevant title deeds. The description and recording of land and buildings in the accounting records of the municipality did not permit the application of alternative audit procedures.
 23. The municipality has not disclosed contractual commitments for the acquisition of property, plant and equipment as well as capital work in progress, in the financial statements in accordance with Standard of Generally Recognised Accounting Practice, GRAP 17: *Property, plant and equipment*. The municipality's accounting records did not permit the application of alternate audit procedures, and consequently, the impact cannot be ascertained.

Cash and cash equivalents

24. Cash and cash equivalents as disclosed in the financial statements excludes an amount of R21 246 400 on account of unexplained difference between bank confirmations and the financial records of the municipality

Trade and other payables

25. My audit report for the prior year was modified due to a lack of sufficient evidence that all trade creditors accrued by the municipality have been correctly valued and included in the balance of R9 627 426 as disclosed in note 12 to the financial statements. This has not been adequately resolved in the current year, and I am unable to determine the impact, if any, on the prior year's accumulated surplus.
26. Comparative figures as disclosed in the financial statements include unexplained differences between the prior year audited financial statements and the financial records of the

municipality of R5 982 756. These differences could not be reconciled to the restatement of corresponding figures as disclosed in note 33 to the financial statements. No alternative audit procedures were possible and consequently I could not determine whether trade creditors amounting to R9 627 426 disclosed in the annual financial statements as comparative figures, are correctly disclosed.

27. Included under other trade and other payables in note nine to the financial statements are suspense accounts for unallocated deposits amounting to R1 733 239 with no reconciliations provided. The municipality's records did not permit the application of alternative audit procedures regarding the clearing of these suspense accounts.
28. Included under other trade and other payables in note nine to the financial statements are suspense accounts for expenses not captured in the cashbook amounting to R1 346 352 with no reconciliations provided. The municipality's records did not permit the application of alternative audit procedures regarding the clearing of these suspense accounts.
29. According to the South African Statement of Generally Accepted Accounting Practice, IAS 19: *Employee benefits*, short term benefits are defined as are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service. The municipality did not accrue for service bonuses as required.

Expenditure

30. The entity could not provide sufficient appropriate audit evidence to support payments of R3 400 892 in respect of goods and services. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all goods and services were properly recorded. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence, completeness, accuracy, cut-off and classification of goods and services.

Trade and other receivables

31. My audit report for the prior year was modified due to a lack of sufficient evidence that all consumer debtors and other receivables belonging to the municipality have been correctly valued and included in the balance of R429 279 336 as disclosed in note six, R1 988 572 as disclosed in note seven and R6 388 701 as disclosed in note eight to the financial statements respectively. This has not been adequately resolved in the current year, and I am unable to determine the impact, if any, on the prior year's accumulated surplus.
32. Comparative figures as disclosed in the financial statements include unexplained differences between the prior year audited financial statements and the financial records of the municipality of R557 644. No alternative audit procedures were possible and consequently I could not determine whether consumer debtors and other receivables amounting to R437 656 609 disclosed in the annual financial statements as comparative figures are correctly disclosed.

33. Value added tax (VAT) receivables amounting to R6 139 147 as disclosed in note seven to the financial statements includes input VAT incorrectly calculated on a global basis on goods and services received on which input VAT deductions are prohibited in terms of the act. Furthermore, input/output VAT arising from transactions made on behalf of the municipality was incorrectly accounted for in the return of the municipality. The municipality's system did not permit the application of alternative audit procedures and consequently I am unable to determine the effect on the VAT receivables balance.
34. Value added tax "savings" amounting to R8 441 654 were claimed during the year under review however, no corrective journal entries were passed in the financial records of the municipality. Furthermore, an amount of R424 410 with regards to consultancy services was incorrectly allocated to VAT receivables.

Inventory

35. My audit report for the prior year was modified due to lack of sufficient evidence that all journals were accounted for amounting to R1 104 583 and this matter had not been resolved for the year ended 30 June 2010. My opinion for the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures
36. Stock held at satellite offices was not included in the year end stock take. The municipality did not implement an adequate inventory recording / management system for the year under review. No alternative audit procedures were possible and consequently I could not determine whether inventories amounting to R1 671 786 disclosed in the annual financial statements is complete and correctly valued.

Contingent liabilities

37. The municipality has not disclosed contingent liabilities in the financial statements as required by the Standard of Generally Recognised Accounting Practice, GRAP 19: *Provisions, Contingent Liabilities and Contingent Assets*. There was no system in place for the identification and recognition of contingent liabilities. The municipality's records did not permit the application of alternative procedures.

Poste Employee costs

38. The South African Statement of Generally Accepted Accounting Practice, IAS 19: *Employee benefits* require the recognition and disclosure of defined benefit plans of post-employment benefits. An amount of R39 303 (2009: R47 739) was disclosed in note 21 to the financial statements. However, the municipality did not comply with the measurement requirements in terms of this standard. The effect on this account and on other classes of transactions could not be determined.

Cash flow statement

39. Presentation of a cash flow statement, summarising the entity's operating, investing and financing activities is required by the Standard of Generally Recognised Accounting Practice, GRAP 2: *Cash flow statements*. The following material unexplained and irreconcilable differences were identified:

- Cash received from consumers, government and other sources of revenue were overstated with an amount of R9 789 152;
- Cash paid to suppliers, employees and other related services were understated with an amount of R10 659 399.

The cumulative effect of these misstatements resulted in the net cash flows from operating activities will result in the cash flow statement being overstated by R870 247.

Basis for disclaimer

40. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matter

I draw attention to the matters below. My opinion is not modified in respect of these matters:

Restatement of corresponding figures

41. As disclosed in note 33 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of an error discovered during 2009/10 in the financial statements of Elias Motsoaledi Local Municipality at, and for the year ended, 30 June 2009

Fruitless and wasteful expenditure

42. As disclosed in note 38 to the financial statements, fruitless and wasteful expenditure to the amount of R8 449 was incurred, as a result of interest raised on late payments to suppliers.

Irregular expenditure

43. As disclosed in note 39 to the financial statements, irregular expenditure to the amount of R21 286 and R151 007 was incurred due to expenditure incurred in contravention with the supply chain management regulations and Municipal Systems Act respectively.

Additional matters

I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

44. The supplementary information set out on pages XXX to XXX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

45. In terms of the PAA of South Africa and *General notice 1570 of 2009*, issued in *Government Gazette No. 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the MFMA and financial management (internal control).

Predetermined objectives

46. Material findings on the report on predetermined objectives, as set out on pages XXX to XXX, are reported below:

Non-compliance with regulatory and reporting requirements

Existence and functioning of a performance audit committee

47. The municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee, as required by regulation 14(2) of the Municipal Planning and Performance Management Regulations, 2001.

Lack of adoption or implementation of a performance management system

48. The municipality did not adopt a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required in terms of sections 36, 38 and 41(2) of the MSA, and regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

Compliance with laws and regulations

MFMA

Expenditure was incurred in contravention of applicable legislation resulting in unauthorised expenditure

49. Contrary to the requirement of section 1 of the MFMA, the municipality incurred unauthorised expenditure.

Expenditure incurred was made in vain or could have been avoided resulting in fruitless and wasteful expenditure

50. Contrary to the requirement of section 1 of the MFMA, the municipality incurred fruitless and wasteful expenditure.

Expenditure was not paid within the parameters set by the applicable legislation

51. Contrary to section 65(2)(e) of the MFMA the municipality did not pay money owing by the municipality within 30 days of receiving the statement or invoice payments.

The accounting officer did not adhere to his statutory responsibilities

52. Contrary to section 62(1)(d) of the MFMA the accounting officer did not comply with his legislative responsibilities to implement effective, efficient and transparent processes of financial and risk management to prevent and detect unauthorised expenditure and fruitless and wasteful expenditure.

The financial statements were not prepared in accordance with applicable legislation

53. Contrary to section 122(1) of the MFMA the municipality did not prepare financial statements that fairly present its state of affairs as material misstatements were corrected during the audit.

Municipal Systems Act of South Africa, Act no 32 of 2000 (MSA)

54. The municipality did not perform frequent bank reconciliations as required by section 10 of the Municipal Systems Act.

INTERNAL CONTROL

55. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA and MSA, but not for the purpose of expressing an opinion on the effectiveness of internal control.

56. The matters reported below are limited to the significant deficiencies regarding the basis for disclaimer of opinion paragraph, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

- **Leadership**

- Oversight responsibility***

- The accounting officer does not exercise oversight responsibility over reporting and compliance by management with laws, regulations and internally designed policies and procedures. As a result, non-compliance issues were noted.

- **Financial and performance management**

- Quality, reliable annual financial statements*

- The financial statements and other information to be included in the annual report are not reviewed for completeness and accuracy prior to submission for audit by the chief financial officer.

- Adequate systems*

- Adequate systems, manual or automated controls are not designed or implemented to ensure that the transactions have occurred, are authorised, and are completely and accurately processed pertaining to the accounting system.

- **Governance**

- Risk identification*

- Internal controls are not selected and developed to prevent/detect and correct material misstatements in financial reporting and reporting on predetermined objectives.

Auditor-General

Polokwane

30 November 2010



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SOUTH AFRICA

Auditing to build public confidence